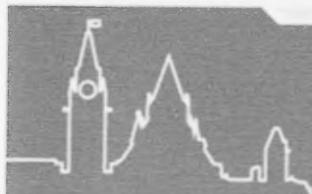




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Quarterly Financial Report

For the quarter ended June 30th, 2011



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1. Introduction

This quarterly financial report should be read in conjunction with the *Main Estimates* and *Supplementary Estimates A*. It has been prepared by management as required by section 65.1 of the *Financial Administration Act* and in the form and manner prescribed by the Treasury Board Accounting Standard 1.3. It has not been subject to an external audit or review.

1.1 Authority, Mandate and Program Activities

Public Works and Government Services Canada (PWGSC) provides common, central and shared services to other government departments, thereby enabling them to deliver programs and services to Canadians. As the federal government's primary common service provider, PWGSC acts as principal banker, accountant, central purchasing agent, translation authority, real property manager and enabler of access to government services on-line to all government departments, boards and agencies.

Further details on PWGSC's authority, mandate and program activities may be found in the *Report on Plans and Priorities* and the *Main Estimates*.

1.2 Basis of Presentation

This quarterly report has been prepared by management using an expenditure basis of accounting also known as modified-cash accounting, and a special purpose financial reporting framework designed to meet financial information needs with respect to the use of spending authorities. The accompanying Statement of Authorities compares the department's spending authorities granted by Parliament to those used by the department. Information in the Statement of Authorities is consistent with that in the *Main Estimates* and *Supplementary Estimates A*.

The authority of Parliament is required before monies can be spent by the Government. Approvals are given in the form of annually approved limits through appropriation acts or through legislation granting statutory spending authority for specific purposes.

When Parliament is dissolved for the purposes of a general election, as was the case this year, section 30 of the *Financial Administration Act* authorizes the Governor General, under certain conditions, to issue a special warrant authorizing the Government to withdraw funds from the Consolidated Revenue Fund. A special warrant is deemed to be an appropriation for the fiscal year in which it is issued.

The Department uses the full accrual method of accounting to prepare and present its annual *Consolidated Departmental Financial Statements* that are published in the *Departmental Performance Report*. However, the spending authorities voted by Parliament remain on an expenditure basis of accounting.

1.3 PWGSC's Financial Structure

As a common service provider, PWGSC utilizes a variety of funding mechanisms to achieve its mandate. This includes budgetary authorities that are comprised of statutory and voted (or non-statutory) authorities, as well as non-budgetary authorities. The voted budgetary authorities include Vote 1 – Operating Expenditures

as well as Vote-Netted Revenues, Vote 5 – Capital Expenditures and Vote 10 - Contributions, while the statutory authorities are mainly comprised of Revolving Funds, the Employee Benefits Plan (EBP) and Payments in Lieu of Taxes (PILT). The non-budgetary authorities consist primarily of the Seized Property Working Capital Account.

PWGSC's complex financial structure may result in significant timing differences on a quarterly basis which are resolved by year end. These are further discussed in the following paragraphs.

PWGSC delivers its services mainly on a cost recovery basis, generating revenues via Vote-Netted Revenue programs and Revolving Fund ("the Funds") organizations. These programs and organizations are mainly designed to provide services to other government departments, and are expected to recover the full cost of their operations through their revenues. However, the costs incurred by the Funds are usually disbursed prior to invoicing the client, which generally occurs upon completion of a project or services rendered. This may result in the Fund being in a temporary deficit position, which is funded by a continuing non-lapsing authority similar to a line of credit. Cost recovery through Vote-Netted Revenue programs also results in a timing difference of approximately one to two months between the expenditure and the collection of revenue.

In addition, PWGSC manages a variety of real property and information technology projects, supported through both appropriations and cost recovery activities. Expenditures against these projects are not incurred evenly throughout the year; thus, quarter-to-quarter fluctuations are normal. Historical trends have shown that the volume of transactions tends to occur mainly in the last two quarters of the fiscal year. This is primarily due to the time required to develop and implement projects following budget approvals, as well as completing related service level agreements with clients.

PWGSC also manages seized property for the Government of Canada pursuant to the *Seized Property Management Act*. The financial management of this activity is performed through the non-budgetary Seized Property Working Capital Account. Charged to this account are expenditures and advances made to maintain and manage any seized or restrained property as well as other properties subject to a management order or forfeited to Her Majesty. PWGSC recovers its costs when forfeiture and disposition have occurred.

Lastly, PILT payments issued by PWGSC on behalf of other participating federal departments are recovered from those departments, and are recorded as Grants in the Public Accounts of Canada. The timing difference between the time a PILT payment is made and the time it is recovered from another department is funded through a statutory vote.

2. Highlights of Fiscal Quarter and Fiscal Year-to-Date (YTD) Results

As a result of the election in May 2011, Governor General Special Warrants were used to finance the functioning of the Government until June 27, 2011. This resulted in lower than expected authorities as no projects were submitted for approval under *Supplementary Estimates A*. In 2010-11, an amount of \$59M was included in the first quarter as *Supplementary Estimates A*.

As shown in the Statement of Authorities, which is summarized in the table below, PWGSC has seen a net decrease in total authorities available from the previous year of approximately 10% (or \$306 M). The overall decrease includes a combination of reductions under Vote 1 and Vote 5 with minor increases in all other authorities.

Table 1: Year over Year Authorities

Authorities (in thousands of dollars)	2011-12	2010-11	Variances
Vote 1 - Net Operating Expenditures	\$ 2, 116,434	\$ 2, 344,291	\$ (227,857)
Vote 5 - Capital Expenditures	344,512	469,751	(125,239)
Vote 10 - Contribution Expenditures ¹	5,210	-	5,210
Revolving Fund Net Expenditures	14,229	3,881	10,348
Other Budgetary Statutory Authorities	286,634	255,349	31,285
TOTAL AUTHORITIES	\$ 2, 767,019	\$ 3, 073,272	\$ (306,253)

Note 1: Vote 10 – Contribution, created in 2011-12, was previously reported under Vote 1 – Operating

The major variances in authorities available for use and planned expenditures between 2010-11 and 2011-12 are explained below.

In 2010-11, the *Accelerated Infrastructure Program* under the Government-wide *Economic Action Plan* came to an end. As part of this program, approximately \$194.5M was invested in 2010-11 towards the maintenance and repair of infrastructure. The resulting decrease in 2011-12 is reflected under Operating Expenditures (Vote 1) and Capital Expenditures (Vote 5) for \$130M and \$64.5M, respectively. These reductions will affect most expenditure categories with significant impacts under Professional and Special Services.

While the end of the *Accelerated Infrastructure Program* is the main reason for the majority of variances between fiscal years, other initiatives are worthy of discussion.

- The *Long Term Vision and Plan* for the Parliamentary Precinct is expected to receive total funding of \$204.6M for the current year. As at the end of Quarter One, \$42M has been received in Vote 1 and \$38M in Vote 5. This represents a decrease of \$31M and \$34M respectively when compared to funds received over the same period in 2010-11.
- An increase in Vote 5 - Capital of \$8.9M this year is attributed to the *Pay Modernization Project*. This initiative, which began in 2009-10 and ends in 2015-16, is expected to replace the Government of Canada pay system, which will benefit all departments.
- The *Canadian Innovation Commercialization Program*, which aims to promote innovation and support the development of Small and Medium Enterprises in Canada, is seeing its Planned Expenditures for the year increase by \$21.3M. A portion of the increase is due to the transfer-in of \$4.5M from 2010-11. This increase will be reflected mostly under Professional and Special Services (Vote 1).

- PWGSC's *Central Freight Services*, program which provided shipping rate comparisons and allowed for the ordering of courier and freight shipment services through the Government of Canada, has been devolved to other government departments in 2010-11. This change translates into a decrease of approximately \$21M in planned operating expenditures under Transportation and Communications and Utilities, Materials and Supplies which is offset by an equivalent decrease in Revenues.
- Following the success of *Accelerated Infrastructure Program* investment, the Capital Vote 5 is reduced by \$21M for the Engineering Assets (e.g., highways, bridges, dams, wharfs, etc.).
- The remaining decreases of approximately \$67M in Vote 1 and \$15M in Vote 5 are as a result of multiple smaller initiatives/projects which are not being replaced upon completion.

As can be seen in the Departmental Expenditures by Standard Object table, the expenditure patterns for most Standard Objects in the first quarter of 2011-12 are consistent with those of 2010-11. First quarter actual expenditures represents 29% of the total planned annual expenditures in 2011-12 which is consistent with 28% for the same period in 2010-11.

An even distribution over each quarter of Personnel costs is to be expected, while other types of expenditures are not distributed evenly over the four quarters. This occurs because the first quarter of the fiscal year is typically dedicated to planning and preparing for new initiatives while monitoring progress on existing programs.

The planning information utilized to prepare the *Main Estimates* by Standard Object is based on historical data available at the time of the *Annual Reference Level Update*. This results in estimated figures by Standard Object which may not reflect the expected expenditures.

3. Risks and Uncertainties

Of the risks identified through PWGSC's corporate risk exercises only two were considered to have a potential financial impact. These risks deal with financial sustainability during times of fiscal restraint as well as human resource capacity.

PWGSC's implementation of Strategic Review as well as the fiscal restraint measures found in *Budget 2010* and *Budget 2011* result in both risks and opportunities as PWGSC explores new ways of delivering services. Management has developed a solid action plan which addresses the cumulative impact of these constraints in funding on its departmental activities and financial sustainability. However, there remains a certain level of uncertainty which results from the implementation itself, and management continues to be vigilant.

In addition to its challenge in managing its own administrative cost reductions, PWGSC will face the financial and operational uncertainty that results from its role as a common service provider to federal departments and agencies. The impacts could multiply to respond to changes in the needs and level of demand from clients and the impact of these changes on service quality. The department must continue the effective delivery of services to other departments and to Canadians while assessing the impact that these restraint

measures will have on the demand for its services and ultimately on the department's structure and service levels.

Many steps have been taken to ensure these risks are mitigated including:

- Clarification of accountabilities through the implementation of a more robust Financial Management Framework;
- Implementation of a more rigorous approach to the management of revenues, expenditures, forecasting and commitment monitoring; and
- Ensuring that integration exists between investment plans, business plans and human resources strategies, and that risks and complexities be considered when new departmental business initiatives are proposed within the context of these plans.

Furthermore, Treasury Board's approval of PWGSC's Strategic Review allowed the department to pursue its strategic direction. The department developed a sound implementation plan including a communication strategy to explain the changes to management and staff as well as a comprehensive human resources plan to assist impacted employees. PWGSC is proactively monitoring progress to ensure the attainment of service quality objectives. Other steps to be taken include the identification of future funding pressures through consultation with senior executives.

The risk area of Human Resource Capacity continues to be of concern to PWGSC. Increases in retirement rates and PWGSC's challenges in the recruitment and retention of employees in specific categories such as translators, IT specialists and Real Property project managers, creates a risk to PWGSC's hiring and recruitment strategy. This risk can result in higher costs for recruiting and retaining personnel.

To respond to this risk, PWGSC has implemented a departmental strategy to be the Employer of Choice and to utilize staffing strategies based on current and future business needs that address the potential shortfall categories. Furthermore, PWGSC will focus on recruiting and retaining skilled staff, by:

- Exploring staffing options based on robust business models that take into consideration workload peaks and valleys;
- Streamlining human resources processes to readily access staff in critical areas in a timely manner;
- Continuing to maintain succession plans and development programs; and
- Adopting a competency-based management strategy.

4. Significant Changes to Operations, Personnel and Programs

Like many other departments, PWGSC has gone through a Strategic Review exercise in which program spending was reviewed to ensure that government programs and services meet the priorities of Canadians and are aligned with federal responsibilities. As part of this exercise, PWGSC was asked to examine its base budget to find \$35.6M in savings within our departmental program activities and a further \$91M in savings within the Real Property portfolio by 2014.

PWGSC focused on the following themes when reviewing its programs:

- Eliminating duplication and overlap across programs and services, thereby contributing to a more affordable public service;
- Enhancing efficiency of operations through innovation and continuous improvement; and,
- Focusing on the core mandate and leveraging the expertise of the private sector. As a result, PWGSC will be winding down two of its six Revolving Funds in 2011-12.

As a result of Strategic Review, approximately 687 positions are expected to be eliminated across PWGSC over the next three years: 556 in the National Capital Area (81%) and 131 in the Regions (19%). Approximately 50% of the workforce reductions will begin immediately. The remaining 50% of the reductions will be phased in over the following two years.

The department is committed to minimizing the impact of fiscal restraint measures. Management is sharing timely and accurate updates with employees, town-hall meetings were held, and bargaining agents are involved. Furthermore, a centralized group of human resources professionals has been created to help affected employees find jobs. In fact, at the time this report was being finalized, the department had secured new employment for 171 of the 307 employees affected by the Strategic Review this year and human resources strategies were being developed to place an additional 74 employees, all within two months of the impacts being announced.

It should be noted that the department is comprised of approximately 14,000 employees, and with the vacancies that currently exist and our rate of attrition (8%), it is anticipated that there will be opportunities available to many affected employees both within the department and across the public service.

Approved by:

François Guimont, Deputy Minister
Public Works and Government Services Canada

Gatineau, Canada

Alex Lakroni, Chief Financial Officer
Public Works and Government Services Canada

Gatineau, Canada

Date

Date

STATEMENT OF AUTHORITIES (UNAUDITED)

For the quarter ended June 30, 2011

	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Total available for use for the year ending March 31, 2012 *	Used during the quarter ended June 30, 2011	Year to date used at quarter end	Total available for use for the year ending March 31, 2011 *	Used during the quarter ended June 30, 2010	Year to date used at quarter end
<i>(in thousands of dollars)</i>						
Vote 1						
Gross Operating Expenditures	3,406,963	717,700	717,700	3,642,827	747,824	747,824
Vote-Netted Revenues	(1,290,529)	(273,794)	(273,794)	(1,298,536)	(245,497)	(245,497)
Net Operating Expenditures	2,116,434	443,906	443,906	2,344,291	502,327	502,327
Vote 5 - Capital Expenditures	344,512	34,010	34,010	469,751	58,047	58,047
Vote 10 - Contribution Expenditures **	5,210	690	690	-	-	-
Statutory Authorities						
Revolving Fund Gross Expenditures	2,296,281	316,206	316,206	2,443,608	319,426	319,426
Revolving Fund Revenues	(2,282,052)	(215,766)	(215,766)	(2,439,727)	(195,189)	(195,189)
Revolving Fund Net Expenditures	14,229	100,440	100,440	3,881	124,237	124,237
Other Budgetary Statutory Expenditures	286,634	211,363	211,363	255,349	189,741	189,741
Total Budgetary Statutory Authorities	300,863	311,803	311,803	259,230	313,978	313,978
Total Budgetary Authorities	2,767,019	790,409	790,409	3,073,272	874,352	874,352
Non-Budgetary Authority						
Seized Property Working Capital Account	-	(3,897)	(3,897)	-	(7,375)	(7,375)
TOTAL AUTHORITIES	2,767,019	786,512	786,512	3,073,272	866,977	866,977

* Includes only Authorities available for use and granted by Parliament at quarter-end

** Vote 10 is new in 2011-12 (previously included under Vote 1).

DEPARTMENTAL BUDGETARY EXPENDITURES BY STANDARD OBJECT (UNAUDITED)

For the quarter ended June 30, 2011

	Fiscal year 2011-2012			Fiscal year 2010-2011		
	Planned expenditures for the year ending March 31, 2012	Expended during the quarter ended June 30, 2011	Year to date used at quarter end	Planned expenditures for the year ending March 31, 2011	Expended during the quarter ended June 30, 2010	Year to date used at quarter end
<i>(in thousands of dollars)</i>	*			*		
Expenditures						
Personnel	1,126,583	302,967	302,967	1,064,082	284,249	284,249
Transportation and communications	230,137	43,979	43,979	306,734	39,824	39,824
Information	15,930	1,520	1,520	15,691	2,249	2,249
Professional and special services	1,546,152	164,961	164,961	1,418,511	196,563	196,563
Rentals	966,059	280,673	280,673	1,168,256	283,269	283,269
Repair and maintenance	1,164,423	156,525	156,525	1,351,198	197,269	197,269
Utilities, materials and supplies	198,783	24,407	24,407	262,275	24,003	24,003
Acquisition of land, buildings and works	209,807	30,774	30,774	319,915	14,986	14,986
Acquisition of machinery and equipment	106,317	3,985	3,985	114,650	5,974	5,974
Transfer payments	189,593	185,073	185,073	172,820	168,385	168,385
Public debt charges	87	-	-	-	-	-
Other subsidies and payments	585,729	85,105	85,105	617,403	98,267	98,267
Total gross budgetary expenditures	6,339,600	1,279,969	1,279,969	6,811,535	1,315,038	1,315,038
Less revenues netted against expenditures						
Revolving Fund Revenues	(2,282,052)	(215,766)	(215,766)	(2,439,727)	(195,189)	(195,189)
Vote-Netted Revenues	(1,290,529)	(273,794)	(273,794)	(1,298,536)	(245,497)	(245,497)
Total revenues netted against expenditures	(3,572,581)	(489,560)	(489,560)	(3,738,263)	(440,686)	(440,686)
TOTAL NET BUDGETARY EXPENDITURES	2,767,019	790,409	790,409	3,073,272	874,352	874,352

* Includes only Authorities available for use and granted by Parliament at quarter-end